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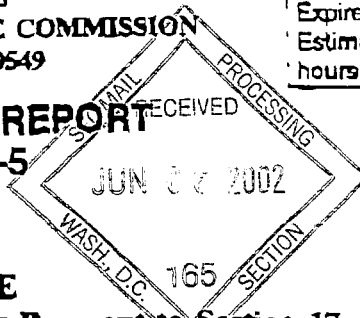


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6/24/02

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

OMB APPROVAL  
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ANNUAL AUDITED REPORT  
FORM X-17A-5  
PART III



SEC FILE NUMBER  
8-46808

FACING PAGE

Information Required of Brokers and Dealers Pursuant to Section 17 of the  
Securities Exchange Act of 1934 and Rule 17a-5 Thereunder

REPORT FOR THE PERIOD BEGINNING 01/01/01 AND ENDING 12/31/01  
MM/DD/YY MM/DD/YY

A. REGISTRANT IDENTIFICATION

NAME OF BROKER-DEALER: AFS Equities, Inc.

OFFICIAL USE ONLY  
FIRM ID. NO.

ADDRESS OF PRINCIPAL PLACE OF BUSINESS: (Do not use P.O. Box No.)  
2301 1st Avenue North, Suite 104  
(No. and Street)

Birmingham Alabama 35203  
(City) (State) (Zip Code)

NAME AND TELEPHONE NUMBER OF PERSON TO CONTACT IN REGARD TO THIS REPORT  
Trava L. Williams 205-581-5277  
(Area Code - Telephone No.)

B. ACCOUNTANT IDENTIFICATION

INDEPENDENT PUBLIC ACCOUNTANT whose opinion is contained in this Report\*

Mackie, Splawn, Tindall and McDonald, LLP  
(Name - if individual, state last, first, middle name)  
2100 16th Street, So. Ash Place, Suite 300 Birmingham AL 35205  
(Address) (City) (State) (Zip Code)

CHECK ONE:

- ☒ Certified Public Accountant
- ☐ Public Accountant
- ☐ Accountant not resident in United States or any of its possessions.

PROCESSED

JUL 02 2002

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THOMSON  
FINANCIAL

\*Claims for exemption from the requirement that the annual report be covered by the opinion of an independent public accountant must be supported by a statement of facts and circumstances relied on as the basis for the exemption. See section 240.17a-5(e)

OATH OR AFFIRMATION

Trava L. Williams swear (or affirm) that, to the best of my knowledge and belief the accompanying financial statement and supporting schedules pertaining to the firm of AFS Equities, Inc., as of 12/31/01, are true and correct. I further swear (or affirm) that neither the company nor any partner, proprietor, principal officer or director has any proprietary interest in any account classified solely as that of a customer, except as follows:

State at Large  
My Commission Expires 2.20.06  
Connie L. Rouns  
Notary Public  
June 5th, 2002

[Signature]  
President  
Title

This report\*\* contains (check all applicable boxes):

- ☐ (a) Facing page.
- ☐ (b) Statement of Financial Condition.
- ☐ (c) Statement of Income (Loss).
- ☐ (d) Statement of Changes in Financial Condition.
- ☐ (e) Statement of Changes in Stockholders' Equity or Partners' or Sole Proprietor's Capital.
- ☐ (f) Statement of Changes in Liabilities Subordinated to Claims of Creditors.
- ☐ (g) Computation of Net Capital
- ☐ (h) Computation for Determination of Reserve Requirements Pursuant to Rule 15c3-3.
- ☐ (i) Information Relating to the Possession or control Requirements Under Rule 15c3-3.
- ☐ (j) A Reconciliation, including appropriate explanation, of the Computation of Net Capital Under Rule 15c3-1 and the Computation for Determination of the Reserve Requirements Under Exhibit A of Rule 15c3-3.
- ☐ (k) A Reconciliation between the audited and unaudited Statements of Financial Condition with respect to methods of consolidation.
- ☐ (l) An Oath or Affirmation.
- ☐ (m) A copy of the SIPC Supplemental Report.
- ☐ (n) A report describing any material inadequacies found to exist or found to have existed since the date of the previous audit.

\*\*For conditions of confidential treatment of certain portions of this filing, see section 240.17a-5(e)(3).

**AFS EQUITIES, INC.**

**FINANCIAL STATEMENTS AND  
SUPPLEMENTARY INFORMATION  
DECEMBER 31, 2001**



Mackle  
Splawn  
Tindall &  
McDonald, LLP  
Certified Public Accountants

## **Independent Auditors' Report**

To the Board of Directors of  
AFS Equities, Inc.  
Birmingham, Alabama

We have audited the accompanying balance sheet of AFS Equities, Inc., as of December 31, 2001, and the related statement of income (loss), stockholders' equity, and cash flows for the year then ended that you are filing pursuant to rule 17a-5 under the Securities Exchange Act of 1934. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statement referred to above presents fairly, in all material respects, the financial position of AFS Equities, Inc. as of December 31, 2001, and the results of its operations and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The accompanying financial statements have been prepared assuming that the company will continue as a going concern.



As shown in the financial statements, the company incurred a net loss of \$114,749 for 2001. During 2001 stockholders' purchased \$91,486 of common stock. The Company used this additional capital to meet current operating obligations. Based on these facts, substantial doubt exists about the ability of the Company to continue as a going concern without the continued ability of the shareholders to continue to raise capital.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The information contained in Schedules I, II and III is presented for purposes of additional analysis and is not a required part of the basic financial statements. The information contained in Schedules I and II constitutes supplementary information required by rule 17a-5 under the Securities Exchange Act of 1934. Such information contained in Schedules I, II and III has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*Mackle Splawn Lindahl & McDonald, LLP*

May 23, 2002

**AFS EQUITIES, INC.**

**BALANCE SHEET  
DECEMBER 31, 2001**

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**ASSETS**

**Current assets**

|                                    |               |
|------------------------------------|---------------|
| Cash                               | \$ 1,498      |
| Commissions receivable             | 33,919        |
| Management fees receivable         | 10,891        |
| Other trade receivables            | 10,359        |
| Accounts receivable - shareholders | 1,624         |
| Prepaid expenses                   | 675           |
| <b>Total current assets</b>        | <u>58,966</u> |

**Fixed assets**

|                                 |                 |
|---------------------------------|-----------------|
| Furniture and equipment         | 29,796          |
| Less accumulated depreciation   | <u>(11,250)</u> |
| <b>Total fixed assets - net</b> | <u>18,546</u>   |

**Other assets**

|                  |               |
|------------------|---------------|
| Clearing deposit | <u>25,000</u> |
|------------------|---------------|

|                     |                          |
|---------------------|--------------------------|
| <b>TOTAL ASSETS</b> | <b>\$ <u>102,512</u></b> |
|---------------------|--------------------------|

See notes to financial statements.

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**LIABILITIES AND STOCKHOLDERS' EQUITY****Current liabilities**

|                                     |               |
|-------------------------------------|---------------|
| Accrued commissions                 | \$ 19,660     |
| Accounts payable - trade            | 16,596        |
| Accrued payroll taxes and penalties | 22,305        |
| <b>Total current liabilities</b>    | <u>58,561</u> |

**Stockholders' equity**

|   |               |
|---|---------------|
| Common stock, par value \$1, 100,000 shares<br>authorized, 11,926 shares issued and outstanding | 11,926        |
| Common stock subscribed   | 2,000         |
| Additional paid-in capital  | 289,559       |
| Retained earnings (deficit)   | (259,534)     |
| <b>Total stockholders' equity</b>   | <u>43,951</u> |

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|   |                          |
|---|--------------------------|
| <b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b> | <b>\$ <u>102,512</u></b> |
|---|--------------------------|

## AFS EQUITIES, INC.

STATEMENT OF INCOME (LOSS)  
FOR THE YEAR ENDED DECEMBER 31, 2001

|                             |                     |
|-----------------------------|---------------------|
| Commissions earned          | \$ 497,964          |
| Costs of commissions earned | <u>306,444</u>      |
| Gross profit                | 191,520             |
| Operating expenses          | <u>308,972</u>      |
| Operating loss              | (117,452)           |
| Interest income             | <u>2,703</u>        |
| NET INCOME (LOSS)           | <u>\$ (114,749)</u> |

See notes to financial statements.



**AFS EQUITIES, INC.**

**STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY  
FOR THE YEAR ENDED DECEMBER 31, 2001**

|                                      | <u>Total</u>     | <u>Common<br/>Stock</u> | <u>Common<br/>Stock<br/>Subscribed</u> |
|--------------------------------------|------------------|-------------------------|--|
| <b>Balances at December 31, 2000</b> | \$ 67,214        | \$ 2,400                | \$ 117,550                             |
| Issuance of subscribed stock         | 0                | 587                     | (117,550)                              |
| Common stock subscribed              | 2,000            | 0                       | 2,000                                  |
| Reissue of treasury stock            | 991              | 0                       | 0                                      |
| Issuance of common stock             | 88,495           | 8,939                   | 0                                      |
| Net loss                             | <u>(114,749)</u> | <u>0</u>                | <u>0</u>                               |
| <b>Balances at December 31, 2001</b> | \$ <u>43,951</u> | \$ <u>11,926</u>        | \$ <u>2,000</u>                        |

See notes to financial statements.

| <u>Additional<br/>Paid-in<br/>Capital</u> | <u>Retained<br/>Earnings<br/>(Deficit)</u> | <u>Treasury<br/>Stock</u> |
|---|--|---------------------------|
| \$ 101,549                                | \$ (144,785)                               | \$ (9,500)                |
| 116,963                                   | 0  | 0                         |
| 0   | 0  | 0                         |
| (8,509)                                   | 0  | 9,500                     |
| 79,556                                    | 0  | 0                         |
| <u>0</u>                                  | <u>(114,749)</u>                           | <u>0</u>                  |
| <u>\$ 289,559</u>                         | <u>(259,534)</u>                           | <u>0</u>                  |

## AFS EQUITIES, INC.

STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED DECEMBER 31, 2001**Cash flows from operating activities**

|                   |              |
|-------------------|--------------|
| Net income (loss) | \$ (114,749) |
|-------------------|--------------|

**Adjustments to reconcile net income (loss) to net cash provided by operating activities**

|                                   |          |
|-----------------------------------|----------|
| Depreciation expense              | 2,767    |
| Assets (increase) decrease:       |          |
| Commissions receivable            | (24,374) |
| Investments                       | 37,793   |
| Accounts receivable brokers       | 7,855    |
| Accounts receivable - stockholder | (1,624)  |
| Prepaid expenses                  | (675)    |
| Liabilities increase (decrease):  |          |
| Accrued commissions               | (38)     |
| Accounts payable                  | 1,606    |
| Accounts payable - stockholder    | (666)    |
| Taxes accrued and withheld        | 15,497   |

|  |                 |
|--|-----------------|
| <b>Net cash used in operating activities</b> | <u>(76,608)</u> |
|--|-----------------|

**Cash flows from investing activities**

|                       |                 |
|-----------------------|-----------------|
| Fixed asset purchases | <u>(19,165)</u> |
|-----------------------|-----------------|

|  |                 |
|--|-----------------|
| <b>Net cash used in investing activities</b> | <u>(19,165)</u> |
|--|-----------------|

**Cash flows from financing activities**

|                      |               |
|----------------------|---------------|
| Sale of common stock | <u>91,483</u> |
|----------------------|---------------|

|  |               |
|--|---------------|
| <b>Net cash provided by financing activities</b> | <u>91,483</u> |
|--|---------------|

|   |         |
|---|---------|
| <b>Net increase (decrease) in cash and cash equivalents</b> | (4,290) |
|---|---------|

|   |              |
|---|--------------|
| <b>Cash and cash equivalents, beginning</b> | <u>5,788</u> |
|---|--------------|

|  |                        |
|--|------------------------|
| <b>CASH AND CASH EQUIVALENTS, ENDING</b> | <u><u>\$ 1,498</u></u> |
|--|------------------------|

See notes to financial statements.

## AFS EQUITIES, INC.

### NOTES TO FINANCIAL STATEMENTS

#### 1. Summary of significant accounting policies

##### Company's activities

The Company was incorporated September 29, 1993 as a broker and dealer in securities. The Company engages in allowable activities of a broker or dealer maintaining a minimum net capital requirement not less than \$ 5,000 as per SEC Rule 15c3-2(iv).

##### Basis of accounting

The financial statements of AFS Equities, Inc. are prepared using the accrual basis of accounting where revenues are recognized when earned and expenses are recognized when incurred. This basis of accounting conforms to generally accepted accounting principles.

##### Cash equivalents

The Company considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents.

##### Use of estimates

The process of preparing financial statements in conformity with generally accepted accounting principles requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues, and expenses. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.

##### Depreciation

The cost of property, plant and equipment is depreciated over the estimated useful lives of the related assets. Depreciation is computed primarily on the straight-line method.

##### Advertising

Advertising costs are expensed as incurred.

##### Accounts receivable

The Company considers accounts receivable to be fully collectible; accordingly, no allowance for doubtful accounts is required. If amounts become uncollectible, they will be charged to operations when that determination is made.

#### 2. Reserve requirements

The Company is not obligated to report under SEC Rule 15c3-3 since it does not maintain customer accounts or hold securities. Therefore, the Company does not have a reserve requirement nor does it have any information relating to the possession or control requirement under Rule 15c3-3.

## AFS EQUITIES, INC.

### NOTES TO FINANCIAL STATEMENTS

#### 3. Minimum capital

Under SEC Rule 15c3-1, the Company is required to maintain net capital of not less than \$5,000. At December 31, 2001, the Company's net capital as defined by SEC Rule 15c3-1 was \$ 2,692 in excess of minimum net capital required. The excess net capital at 1500% was \$ 3,788 at December 31, 2001, and the percent of aggregate indebtedness to net capital was 761%.

#### 4. Income taxes

Because the Company reports income for tax purposes on a cash basis, temporary differences exist between the recognition of certain income and expense items for income tax purposes and financial reporting purposes. The Company has Federal and State net operating loss carryforwards available to offset income in future years in the amount of \$296,519. This amount expires beginning in the year 2010.

#### 5. Related party transactions

The Company leased office equipment from a related party under an oral agreement. Net rental expense related to this agreement of \$ 3,889 has been included in operations for the year ended December 31, 2001.

During 2001, the Company received office equipment valued at \$ 19,165 from a related party in settlement of a receivable.

The Company has accounts receivable due from a related party of \$ 1,624 for miscellaneous expenses paid by the Company on behalf of the related party.

During 2001, it was determined that the Company's certificate of deposit in the amount of \$37,378 had been used to collateralize a loan for another entity. This other entity was owned by shareholders of AFS Equities, Inc. When current management discovered the above facts, this certificate of deposit was immediately used to repay the indebtedness of the other entity. As management feels certain that recovery of this amount is not possible, the Company has charged this amount to bad debt expense offsetting it against a loan received from this other entity for a net charge to bad debts of \$17,878.

**AFS EQUITIES, INC.**

**NOTES TO FINANCIAL STATEMENTS**

**6. Contingency**

A former officer of the Company submitted an arbitration claim to the NASD on July 17, 2001 alleging various claims and seeking to recover up to \$1,000,00 in unpaid commissions, emotional distress, and lost corporate opportunities. In response, the Company has filed counterclaims against this former officer. The arbitration is currently scheduled to be held before a NASD panel June 24 through 26, 2002. The attorney representing the Company states that based on the known facts and his understanding of the law there is some likelihood of success in favor of AFS Equities in its claims against the former officer, resulting in a potential monetary gain to AFS. At this time, no amounts have been recorded on the financial statements related to the above mentioned claims.

**7. Lease Commitments**

In October 2001, the Company began leasing its office facility on a month to month basis in the amount of \$1,535 per month. The Company paid a total of \$31,997 for rent during 2001.

## SUPPLEMENTARY INFORMATION

**AFS EQUITIES, INC.**

**SCHEDULE I: COMPUTATION OF NET CAPITAL UNDER  
SEC RULE 17a-5  
FOR THE YEAR ENDED DECEMBER 31, 2001**

**Statement of net capital under SEC Rule 17a-5**

|  |                 |
|--|-----------------|
| Total ownership equity                                       | \$ 43,951       |
| Deduct:  |                 |
| Assets not readily converted to cash per 15c3-1(c)(2)(iv)(A) |                 |
| Fixed assets - net   | (18,546)        |
| Prepaid insurance  | (675)           |
| Accounts receivable - shareholders                           | (1,624)         |
| Other trade receivables                                      | (4,523)         |
| Assets not readily converted to cash per 15c3-1(c)(2)(iv)(C) |                 |
| Asset management fees receivable                             | <u>(10,891)</u> |
| Net capital  | \$ <u>7,692</u> |

**Computation of Basic Net Capital Requirement**

|   |                 |
|---|-----------------|
| Ratio requirement per 15c3-1(i)                                 |                 |
| Minimum net capital required (6-2/3% of aggregate indebtedness) | \$ <u>3,904</u> |
| Minimum dollar net capital requirement per 15c3-2(vi)           | \$ <u>5,000</u> |
| Excess net capital  | \$ <u>2,692</u> |

**Aggregate Indebtedness Ratio**

|                        |                  |
|------------------------|------------------|
| Aggregate indebtedness | \$ <u>58,561</u> |
| Ratio to net capital   | <u>761%</u>      |



AFS EQUITIES, INC.

SCHEDULE II: RECONCILIATION OF AUDITED NET CAPITAL  
TO THE UNAUDITED FOCUS REPORTS PART IIA  
FOR THE YEAR ENDED DECEMBER 31, 2001

|   |                 |
|---|-----------------|
| Net capital per focus report                | \$ 16,313       |
| Increase in accounts receivable             | 6,392           |
| Increase in prepaid expenses                | 675             |
| Increase in fixed assets - net              | 16,908          |
| Decrease in other asset                     | (1,002)         |
| Increase in other liabilities               | (11,878)        |
| Increase in not readily converted into cash | (17,631)        |
| Increase in aggregate indebtedness          | <u>(2,085)</u>  |
| Net audited computation of capital          | \$ <u>7,692</u> |

## AFS EQUITIES, INC.

**SCHEDULE III: OPERATING EXPENSES  
FOR THE YEAR ENDED DECEMBER 31, 2001**

|                                 |                   |
|---------------------------------|-------------------|
| Office salaries                 | \$ 87,173         |
| Quote services                  | 32,672            |
| Rent                            | 31,997            |
| Insurance - health              | 21,989            |
| Telephone and pager             | 18,085            |
| Bad debt                        | 17,878            |
| Payroll taxes                   | 15,887            |
| Legal and accounting            | 15,062            |
| Office expenses                 | 11,116            |
| Professional fees               | 6,856             |
| Taxes and licenses              | 5,627             |
| Penalties                       | 5,585             |
| Internet fees                   | 4,929             |
| Computer expenses               | 4,667             |
| Travel and entertainment        | 4,385             |
| Equipment rental                | 3,889             |
| Continuing education            | 3,782             |
| Depreciation                    | 2,767             |
| Advertising                     | 2,740             |
| Mail and postage                | 2,714             |
| Storage                         | 1,800             |
| Marketing                       | 1,351             |
| Utilities                       | 1,283             |
| Insurance - other               | 1,016             |
| Dues and subscriptions          | 1,007             |
| Cable                           | 853               |
| Bank charges                    | 666               |
| Miscellaneous                   | 512               |
| Repairs and maintenance         | 361               |
| Late fees                       | 323               |
|                                 | <hr/>             |
| <b>TOTAL OPERATING EXPENSES</b> | <b>\$ 308,972</b> |
|                                 | <hr/>             |

See notes to financial statements.